



Research Project to Identify and Assess the Options for the Introduction of an Infrastructure Charging Mechanism in Scotland

Executive Summary

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Background

This project researching the development of an infrastructure charging mechanism in Scotland was commissioned following the publication of the independent review of the Scottish planning system in 2016. It recognised that sustainable economic growth and housing delivery are key priorities for the Scottish Government. Therefore, the principles of an improved and fairer system, with greater transparency, certainty and efficiency needed to be considered to secure funds towards infrastructure delivery.

As such, this research focuses on the options for an infrastructure charging mechanism to be applied through the planning system in Scotland. It considers the advantages and disadvantages of identified options and sets out a potential route map to implementation. The research will be used to help inform future decisions on this subject area.

The research was conducted in three stages:

- Stage 1 – Baseline, Initial Consultation and Identification of Priorities
- Stage 2 – High Level Options, Stakeholder Workshop and Consideration in the Consultation Paper
- Stage 3 – Process & Delivery

The research is built on literature reviews, considerations of best practice, a series of consultations, and considering outcomes from the Scottish Government's Planning Review and 2016 CIL Review. A review of literature focusing on charging mechanism primarily in the United Kingdom and best practice informed an initial consideration of priorities. These were refined through consultations with stakeholders representing land & property, local & national government, public bodies, third sector representatives, infrastructure providers, and more. The Scottish Government were consulted throughout Stages 1-3. It was further informed by workshops supporting the Planning Review.

This background research then led to the development of charging mechanism, informed by a professional understanding of development economics and based on data made available through the Scottish Government, Energy Savings Trust, and other bodies.

Stage 1 & 2

In setting out priorities for a charging mechanism, Stages 1 and 2 considered the implications arising from geographic scale, government policy priorities, land value uplift, role of development plans, legislative requirements, whether a charge is optional/compulsory, its relationship to S75, implementation & resources, and State Aid. In view of these, the key outcomes of the Stage 1 and Stage 2 report was to establish:

1. The pros and cons of a charge being applied at different scales; and
2. To set out high level options for a charging mechanism, which capture land value uplift, highlight how they meet the identified key priorities and Scottish Government's policy objectives.

Stage 1 and Stage 2 led to the development of key priorities for an infrastructure charging mechanism. They established key principles governing the development of the proposed infrastructure levy, based on policy themes of fairness, transparency, certainty and efficiency. The priorities reflected concerns arising from the literature reviews and consultations that a charge:

- assesses market variations at a wider geographical scales, and not based on arbitrary boundaries;
- is clearly delineated in policy with clear guidelines for payment, collection and distribution;
- built on full stakeholder engagement;
- based on clear evidence and part of a broader funding package;
- is used to encourage sustainable economic growth;
- does not consume local authority resources;
- does not conflict with existing developer contributions (S75)

A series of ‘high level options’ emerged from a consideration of these priorities against established outcomes and objectives. These emerging high level options were differentiated based on administrative geographies and on the mechanisms required for collecting the levy, as detailed below:

Geography

- Local authority;
- City Region Deals, or other forms of growth areas of combined authorities, or regional partnerships; or
- The above combined with a national charge.

Mechanism

- A charge based on quantum of development output; or
- A charge based on the value of development output.

Consultations indicated a preference for market/growth areas and combined authorities or agencies in administering the charge. The assessment noted the preference in most instances for combined authority areas, such as City Deal areas, and delivered by ‘greater than local’ authorities.

Stage 3

Stage 3 examined a shortlist of the preferred options in detail and reexamined them against final priorities, in light of subsequent consultations and early outputs from the Planning Review. In addition to the high level options above, a revised brief provided for the re-consideration of local authority-led options. Stage 3 therefore established a clear framework for comparison, including details on:

- Calculating and applying the charge;

- Delivery of the preferred mechanisms;
- A timeline for the preparation of the charge; and
- Details of options for infrastructure charging mechanisms.

Based on a comprehensive assessment of the high level options against the outcomes, objectives and finalised key priorities, an “Infrastructure Growth Contribution” (IGC) was developed. The IGC would raise funds for infrastructure so necessary services and amenities are available to enable that additional land to be developed or that is needed to serve the additional growth within an area.

To maximise the contribution, the formula would be progressively based on the open market capital value per square metre of net additional floorspace given consent by a planning authority for all buildings that are used by people. It would apply to all residential buildings of any tenure, retail buildings, offices, and buildings for light industrial, other employment, educational, transport and leisure uses.

The contribution rate would be set by a predetermined formula of the capital value of the floorspace created at the point that the floorspace is able to be used (less any equivalent IGC for existing floorspace). The valuation would include any common facilities, amenities, or land uses (e.g. parking spaces) that are available to the users of, and associated with, that floorspace. The funds would arise from the growth in value of land arising from pre-existing infrastructure provision (whether public or private) or arising from a planning consent. A threshold, below which a charge would not be payable, applies to low value development where viability is marginal.

The two variants of the IGC provide alternatives in terms of the collection, distribution and administration:

- A Central Co-ordinated Option (i.e. developed centrally and governed by an arms-length agency), a redistributive option maximising grouped authority, cross regional, infrastructure growth coordination; and
- A Local Co-ordinated Option would likely rely on local planning authorities to collect and administer. There is potential for Local Authorities to contribute to infrastructure bodies for required strategic infrastructure, and to strengthen the duty to co-operate with nearby planning authorities so that “shared” needs can be met across neighbouring authorities and levied across these.

Specific legal implications arise from each option. The Central Co-ordinated Option would likely not fall within the devolved competence of the Scottish Parliament, therefore requiring legislative change. The Locally Co-ordinated Option could be linked to Council Tax and business rates, so long as it has a clear local dimension.

The likely contribution of the IGC was assessed based on both flat rate and progressive, non-linear rates. It was found that the most significant contributor to the charge is the residual balance on market housing. A comparison indicated that the contribution is maximised on the non-linear option, with approximately £75m annually in contributions.

Flat rates, while simple to understand and apply, were found to reduce contributions to around £39m annually.

Thresholds would need to be introduced to ensure development viability where development values are lower.

Conclusions and Way Forward

Stage 1 and 2 of this research established robust principles, outcome and objectives for a charge. These, along with the high level options emerging in Stage 2, led to the development and assessment of the **IGC** model and its Central and Locally co-ordinated options.

Stage 1 and 2 consultations revealed a concern about the administrative, geography and redistributive nature of a charge. There are therefore clear differences between the Central and Local Co-ordinated options with respect to the ability to respond to wider distributive issues and the potential for minimising costs and streamlining processes.

In most cases, there are clear similarities in that:

1. The mechanism aims to address infrastructure needs that are 'more than local', and maintain the importance of S75 agreements in addressing site-specific infrastructure;
2. Viability is (albeit variably) accounted for through thresholds within mechanisms to protect lower value areas, and by setting the charge at a rate that would not exceed the gap between the residual land value with obligations and the existing use value of the land; and
3. There are limited to no exemptions to the uniform charge.

Stage 3 recommended a way forward for the development and implementation of an infrastructure charging mechanism. The consultation and legislative process will provide a starting point for a more comprehensive development of the charging mechanisms.

Testing of the options in identified pilot areas has the potential to benefit the development of the infrastructure charging mechanism. These pilot areas should be identified based on particular infrastructure requirements, the size of the geographical market area, and variations in market value.



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